



**ERNST & YOUNG & CO.
(CERTIFIED PUBLIC ACCOUNTANTS)
GENERAL PARTNERSHIP HEAD OFFICE**

Al Faisaliah Office Tower, 14th Floor
King Fahad Road, P.O. Box 2732
Riyadh 11461, Kingdom of Saudi Arabia

Registration No. 45/11/323
C.R. No. 1010383821
Tel +966 11 215 9898, +966 11 273 4740
Fax: +966 11 273 4730
ey.ksa@sa.ey.com
ey.com/mena

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Saudi Telecom Company
(A Saudi Joint Stock Company)

Opinion

We have audited the accompanying consolidated financial statements of Saudi Telecom Company (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise of the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to these consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the professional code of conduct and ethics endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters listed below, provide the basis for our audit opinion on the accompanying consolidated financial statements.



ERNST & YOUNG & CO.
(CERTIFIED PUBLIC ACCOUNTANTS)
GENERAL PARTNERSHIP HEAD OFFICE
 Al Faisaliah Office Tower, 14th Floor
 King Fahad Road, P.O. Box 2732
 Riyadh 11461, Kingdom of Saudi Arabia

Registration No. 45/11/323
 C.R. No. 1010383821
 Tel +966 11 215 9898, +966 11 273 4740
 Fax: +966 11 273 4730
 ey.ksa@sa.ey.com
 ey.com/mena

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Saudi Telecom Company (continued)
 (A Saudi Joint Stock Company)

KEY AUDIT MATTERS (CONTINUED)

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
<p>REVENUE RECOGNITION</p> <p>The Group's revenue consists primarily of subscription fees for telecommunication, data packages and use of the network totalling SR 54 billion for the year ended 31 December 2019.</p> <p>We considered this a key audit matter as the application of accounting standard for revenue recognition in the telecommunication sector includes number of key judgments and estimates.</p> <p>Additionally, there are inherent risks about the accuracy of revenues recorded due to the complexity associated with the network environment, dependency on IT applications, large volumes of data, changes caused by price updates and promotional offers affecting the various products and services offered during the accounting period, as well as the materiality of the amounts involved.</p> <p>Refer to note 4.3 for the accounting policy related to revenue recognition and note 34 for the related disclosures.</p>	<p>Our audit procedures included, among others, the following:</p> <ul style="list-style-type: none"> Involved our IT specialists in testing the design, implementation and operating effectiveness of system internal controls related to revenue recognition. Evaluated the appropriateness of revenue recognition policies. Reviewed a sample of revenue reconciliations prepared by management between the primary billing system and the general ledger. Tested the accuracy of customer invoice generation on a sample basis and tested a sample of the credits and discounts applied to customer invoice. Tested cash receipts for a sample of customers back to the invoice. Performed analytical procedures by comparing expectations of revenue with actual revenue and analysing variances. Assessed the relevant disclosures in the consolidated financial statement.
<p>ALLOWANCE FOR IMPAIRMENT OF TRADE RECEIVABLE</p> <p>As at 31 December 2019, the Group's trade receivables amounted to SR 22.4 billion against which an impairment allowance of SR 2.8 billion is maintained.</p> <p>The Group uses the expected credit loss model (ECL) as required by International Financial Reporting Standard 9 (Financial Instrument) (IFRS 9) to calculate allowance for impairment in trade receivable.</p> <p>We considered this as a key audit matter as ECL model involves complex calculations and use of assumptions by management in addition to the materiality of the amounts involved.</p> <p>Refer to notes 4.15.3 and 5.2.5 for the accounting and critical judgements policies related to allowance for impairment of trade receivable and note 11 for the related disclosures.</p>	<p>Our audit procedures performed included, among others, the following:</p> <ul style="list-style-type: none"> Assessed the design, implementation, and operating effectiveness of the key controls over the following: <ul style="list-style-type: none"> Recording of trade receivables and settlements. Trade receivables aging reports. Tested a sample of trade receivables to assess whether ECL has been recorded on a timely manner. Assessed significant assumptions, including collection rates, recovery rates, impairment ratios and those relating to future economic events that are used to calculate the expected credit loss. Tested the mathematical accuracy of the ECL model. Assessed the disclosures included in the consolidated financial statements of the Group.



ERNST & YOUNG & CO.
(CERTIFIED PUBLIC ACCOUNTANTS)
GENERAL PARTNERSHIP HEAD OFFICE
 Al Faisaliah Office Tower, 14th Floor
 King Fahad Road, P.O. Box 2732
 Riyadh 11461, Kingdom of Saudi Arabia

Registration No. 45/11/323
 C.R. No. 1010383821
 Tel +966 11 215 9898, +966 11 273 4740
 Fax: +966 11 273 4730
 ey.ksa@sa.ey.com
 ey.com/mena

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Saudi Telecom Company (continued)
 (A Saudi Joint Stock Company)

KEY AUDIT MATTERS (CONTINUED)

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
ACCOUNTING FOR ZAKAT AND WITHHOLDING TAX CLAIMS FROM THE GENERAL AUTHORITY OF ZAKAT AND TAX (GAZT)	
<p>As at 31 December 2019, the Group received following claims from GAZT, relating to Zakat and withholding tax:</p> <p>Zakat: The Group received zakat assessments for the years ended 31 December 2008, 2009 and 2018 with additional zakat claimed by GAZT which was challenged by the Group.</p> <p>Withholding Tax: The Group received withholding tax assessments from GAZT for the service of renting international operators' networks outside the Kingdom of Saudi Arabia for the years from 2004 to 2015. The Group's management believes that this service should not be subject to withholding tax and has objected against such assessments which are still underway before the relevant committee.</p> <p>We considered this as a key audit matter as accounting for zakat and withholding tax involves management estimates in addition to the materiality of the additional amounts claimed.</p> <p>Refer to note 4.8 for the accounting policy related to zakat and withholding taxes and notes 33 and 44-E for the related disclosures.</p>	<p>Our audit procedures performed included, among others, the following:</p> <ul style="list-style-type: none"> Reviewed correspondences between the Group and GAZT to determine the amount of the additional assessments made by GAZT. Attended meetings with those charged with governance and the Group's management to obtain an update on the zakat and withholding tax matters and the results of their interactions with the relevant committees. Involved our specialist to assess the appropriateness of the exposures disclosed for both zakat and withholding tax for the years assessed by GAZT and judgements made by management in this matter. Reviewed prior year's decisions from the relevant committee on zakat assessment. Assessed the related disclosures included in the consolidated financial statements of the Group.



ERNST & YOUNG & CO.
(CERTIFIED PUBLIC ACCOUNTANTS)
GENERAL PARTNERSHIP HEAD OFFICE
 Al Faisaliah Office Tower, 14th Floor
 King Fahad Road, P.O. Box 2732
 Riyadh 11461, Kingdom of Saudi Arabia

Registration No. 45/11/323
 C.R. No. 1010383821
 Tel +966 11 215 9898, +966 11 273 4740
 Fax: +966 11 273 4730
 ey.ksa@sa.ey.com
 ey.com/mena

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Saudi Telecom Company (continued)
 (A Saudi Joint Stock Company)

KEY AUDIT MATTERS (CONTINUED)

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
CAPITALIZATION AND USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT (PPE)	
<p>The Group has a substantial capital expenditure plan and therefore incurs significant annual expenditure in relation to the development and maintenance of both infrastructure assets and assets in relation to network and related equipment.</p> <p>Costs related to upgrading or enhancing networks are treated as capital expenditures. Expenses spent to maintain the network's operating capacity are recognized as expenses in the same year in which they are incurred. Capital projects often contain a combination of enhancement and maintenance activities that are difficult to separate, and therefore the distribution of costs between capital and operation depends heavily on management assumptions.</p> <p>Further, there are a number of areas where management judgments impacts the carrying values and depreciation of PPE which include:</p> <ul style="list-style-type: none"> - Decision to capitalize or expense costs; - Review of the useful lives of PPE including the impact of changes in the Group's strategy; and - The timing of commencement of depreciation based on when they are ready for their intended use. <p>We considered this as a key audit matter since it involves management's assumptions and estimates as well as the materiality of the amounts involved.</p> <p>Refer to note 4.9 for the accounting policy related to property, plant and equipment and note 7 for the related disclosures.</p>	<p>Our audit procedures performed included, among others, the following:</p> <ul style="list-style-type: none"> • Tested the effectiveness of the key controls in place over the capitalization and depreciation of PPE and assessed the Group's policies. • Performed analytical procedures on depreciation of PPE by comparing actual depreciation rates with expected rates and analysed variances. • Tested, on a sample basis, the reasonableness of useful lives estimation performed by the management. <p>In addition to the above, we also performed the following procedures on the capitalized cost:</p> <ul style="list-style-type: none"> • Assessed the Group's capitalisation policy for compliance with relevant accounting standards; • Tested, on a sample basis, the implementation of expenditure policy during the year, including the review of minutes of meetings where capital expenditure plan was approved. • Tested, on a sample basis, capitalisation of project expenses in compliance with the Group's capitalisation policy including instances where actual costs differed from the expenditure plan. • Assessed the disclosures included in the consolidated financial statements of the Group.



ERNST & YOUNG & CO.
(CERTIFIED PUBLIC ACCOUNTANTS)
GENERAL PARTNERSHIP HEAD OFFICE
 Al Faisaliah Office Tower, 14th Floor
 King Fahad Road, P.O. Box 2732
 Riyadh 11461, Kingdom of Saudi Arabia

Registration No. 45/11/323
 C.R. No. 1010383821
 Tel +966 11 215 9898, +966 11 273 4740
 Fax: +966 11 273 4730
 ey.ksa@sa.ey.com
 ey.com/mena

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Saudi Telecom Company (continued)
 (A Saudi Joint Stock Company)

KEY AUDIT MATTERS (CONTINUED)

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
<p>VALUATION OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS</p> <p>As at 31 December 2019, the Group's consolidated financial position included property, plant and equipment amounting to SR 45.1 billion and intangible assets amounting to SR 9.9 billion.</p> <p>At each reporting date, the Group perform an assessment of the recoverable value of these assets, or relevant cash- generating units ('CGUs') for any indication of impairment.</p> <p>This involves significant judgment in respect of factors such as technological changes, challenging economic conditions, changing regulatory environment and restrictions, operating or capital costs and other economic assumptions used by the Group.</p> <p>We considered this as a key audit matter as it involves management's assumptions and estimates as well as the materiality of the amounts involved.</p> <p>Refer to notes 4.11 and 5.1.2 for the accounting and critical judgements policies related to valuation of property, plant and equipment and intangible assets.</p>	<p>Our audit procedures performed included, among others, the following:</p> <ul style="list-style-type: none"> • Reviewed management's impairment indicator testing. • Assessed management's assumptions and estimates used to determine the recoverable value of the assets based on our knowledge of the Group and the industry it operates in. • Assessed management's methods of identifying individual CGUs. • Assessed mathematical accuracy of cash flow models. • Assessed the disclosures included in the consolidated financial statements of the Group.



ERNST & YOUNG & CO.
(CERTIFIED PUBLIC ACCOUNTANTS)
GENERAL PARTNERSHIP HEAD OFFICE
 Al Faisaliah Office Tower, 14th Floor
 King Fahad Road, P.O. Box 2732
 Riyadh 11461, Kingdom of Saudi Arabia

Registration No. 45/11/323
 C.R. No. 1010383821
 Tel +966 11 215 9898, +966 11 273 4740
 Fax: +966 11 273 4730
 ey.ksa@sa.ey.com
 ey.com/mena

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Saudi Telecom Company (continued)
 (A Saudi Joint Stock Company)

KEY AUDIT MATTERS (CONTINUED)

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
<p>ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARD 16 (LEASES) (IFRS 16)</p> <p>As at 1 January 2019, the Group's adopted IFRS 16 which supersedes the requirement of IAS 17 (Leases).</p> <p>The Group adopted IFRS 16 "Leases" during the year using the modified retrospective approach; hence, the comparative information was not restated. The Group recorded right of use assets amounting to SR 2,556 million, with corresponding lease liability amounting to SR 2,367, adjusted for any prepaid or accrued lease payments as of 1 January 2019.</p> <p>We considered this as a key audit matter due to the nature and the significance on the Group's consolidated financial statement. In addition to the judgments required by management in the adoption of the standard and the materiality of the amounts involved.</p> <p>Refer to note 44 for the accounting policy related to lease contracts, note 3-1 for the impact of adopting IFRS 16 and notes 9 and 29 for the related disclosures.</p>	<p>Our audit procedures performed included, among others, the following:</p> <ul style="list-style-type: none"> Assessed management's procedures in adopting IFRS 16 as endorsed in the Kingdom of Saudi Arabia. Assessed management's estimates used to calculate the impact of adoption of IFRS 16 as at 1 January 2019 (e.g., discount rate and lease terms used to determine the ROU assets and lease liability for lease contracts). Analysed the completeness of the population of lease contracts by reviewing the reconciliation of the Group's operating lease commitments as of 31 December 2018 to lease liability recognized as at 1 January 2019 and assessed, on sample basis, the contracts for the appropriateness of inclusion or exclusion from the calculation of ROU assets and lease liabilities. Tested, on a sample basis, the accuracy of the lease data by agreeing them with the signed contract and checked mathematical accuracy of the calculation of the ROU assets and lease liabilities. Assessed the disclosures included in the consolidated financial statements of the Group.



ERNST & YOUNG & CO.
(CERTIFIED PUBLIC ACCOUNTANTS)
GENERAL PARTNERSHIP HEAD OFFICE
Al Faisaliah Office Tower, 14th Floor
King Fahad Road, P.O. Box 2732
Riyadh 11461, Kingdom of Saudi Arabia

Registration No. 45/11/323
C.R. No. 1010383821
Tel +966 11 215 9898, +966 11 273 4740
Fax: +966 11 273 4730
ey.ksa@sa.ey.com
ey.com/mena

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Saudi Telecom Company (continued)
(A Saudi Joint Stock Company)

Other Information Included in the Group's 2019 Annual Report

Other information consists of the information included in the Group's 2019 annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2019 annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

When we read the Group's 2019 annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants and the provisions of Companies' Law and Company's By-laws, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



ERNST & YOUNG & CO.
(CERTIFIED PUBLIC ACCOUNTANTS)
GENERAL PARTNERSHIP HEAD OFFICE
Al Faisaliah Office Tower, 14th Floor
King Fahad Road, P.O. Box 2732
Riyadh 11461, Kingdom of Saudi Arabia

Registration No. 45/11/323
C.R. No. 1010383821
Tel +966 11 215 9898, +966 11 273 4740
Fax: +966 11 273 4730
ey.ksa@sa.ey.com
ey.com/mena

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Saudi Telecom Company (continued)
(A Saudi Joint Stock Company)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

for Ernst & Young


Certified Public Accountant
License No. 366

Riyadh: 24 Rajab 1441H
(19 March 2020)

